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MEMORANDUM FOR THE RECORD

SUBJECT: Meeting with OMB Examiner, James R. Oliver,
re Disposition of Air America

1. CIA's OMB examiner, Jim Oliver, earlier this week asked whether we could provide a letter which would include an estimate of the probable return from the disposition of Air America and Southern Air Transport. This estimate would then be used as a basis for reducing our 1975 budget on the assumption that the funds would be available by 1975. I met with Oliver to discuss this and other questions. The following points were made.

2. First, I reviewed the fact that Mr. Colby had discussed with the House and the Senate, during the 1974 CIA budget presentation, that he hoped to use revenues resulting from the sale or liquidation of Air America and SAT as an offset to the Agency's appropriation either in 1974 or 1975, but that the timing would depend upon when final action could be taken on the two transactions.

3. Second, I mentioned the transmittal letter accompanying the 1975 budget request to OMB in which Mr. Colby had reiterated the above and implied that, in view of the passage of time, it now seemed likely that the revenue from the two transactions would not be available during 1974 but could best be used as an offset to our 1975 appropriation request. Details of this transaction would have to be worked out as more facts become available.

4. I said the Agency had not changed its view on the issue but that we thought it unwise to provide a firm estimate on possible revenues from the two transactions at this time for two basic reasons. First, earlier estimates of the worth of Air America--by far the larger of the two air assets--had been based upon the R. Dixon Speas appraisal. The response to our request for bids from three potential buyers suggested less than total acceptance of the Speas estimate.

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Regardless of the validity of the original appraisal, the private market seemed to be saying to us that the appraisal was high. There was some suggestion that the companies were concerned about possible unfunded liabilities which might face Air America as a result of the sale and that this had affected their estimate of its value. Second, as Oliver already knew, it will be the recommendation of the committee which has been handling the proposed sale that Mr. Colby agree to liquidate Air America assets. This decision, if made by the DCI, might alter considerably our estimate of revenue from the transaction.

5. I said that Mr. Colby felt obligated to both OMB and the Congress to carry out the transaction successfully and that it was his full intention to dispose of these assets as expeditiously as possible, bearing in mind that in the case of Air America the capability for certain follow-on contingencies in Southeast Asia had to be preserved in the short term. I added that there was no information available to me which suggested that we had any interest in delaying the transaction in any way. However, OMB's apparent inclination to include an estimate in the 1975 budget seemed to me to be premature. It seemed more sensible at this time to continue to debate the Agency's overall program and to consider later a budget amendment downward to reflect the Air America and Southern Air Transport transactions.

6. Oliver said he felt committed to do something in the 1975 budget and at least to write an issue paper for consideration within OMB. I suggested that the issue paper would be useful regardless of his recommendation at this point, but that I thought it would be better for all concerned if we delayed action. He said he could not give an answer at this time but would consider our request. He asked whether funds from the SAT liquidation might be more certain and I agreed to check.

Deputy Director of Planning,
Programming, and Budgeting

1 - DDMS

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